HOUSE OF COMMONS

Treasury Committee

Oral evidence: Appointment of Bradley Fried as Chair of Court, Bank of England, HC 1319

Tuesday 26 June 2018

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Watch the meeting

Members present: Nicky Morgan (Chair); Rushanara Ali; Mr Simon Clarke; Charlie Elphicke; Stephen Hammond; Stewart Hosie; Catherine McKinnell; Wes Streeting.

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Witness

I: Bradley Fried, appointed Chair of Court, Bank of England.

Written evidence from witnesses:

– CV and Questionnaire

HOUSE OF COMMONS

Examination of Witness

Witness: Bradley Fried.

Q1 **Chair:** Mr Fried, thank you very much indeed. Apologies for starting slightly late, but you were sitting in, so you would have heard that was an interesting session and hopefully helpful for some of the issues we are going to discuss with you this morning for your appointment as Chair of the Bank of England Court. Let us get straight in. In the course of the next year, we are expecting the appointment of a new Governor to succeed Mark Carney. It would be helpful to understand the role you expect to play in the appointment of the Governor's successor. I think you have some views on the sort of person you would like to see. How will you ensure those priorities are reflected in the role requirements that are published?

Bradley Fried: First, thank you very much indeed to you and the panel for seeing me. I appreciate it. On your first question, as to the question of the new Governor, you have raised a number of issues: firstly, the role of Court and, secondly, the kinds of attributes that I would like to see. Let me start off by observing that the new Governor is a Crown appointment, as I observed in my questionnaire, and the appointment process will be led by the Treasury. That is unlike any conventional board appointment, where the chair will take the lead and work with the non-executives to make that appointment. I would hope to be on that panel and, in doing that, I would hope to represent the views of the non-executive directors in making that appointment.

Having said that, I would say very clearly that there are some quite important attributes that we would expect of a new Governor. I say "we"; I would hope it would be my non-executive director colleagues as well, but at the moment I can speak for myself and what I would hope for in a new Governor. I would take the hard skills, the core, hard economic skills, the skills that are required to be Governor of the Bank of England, as a given. I am going to, if I may, outline four areas.

First, the new Governor should live the values of the institution. We have worked terribly hard to ensure over the last four years that the institution has a set of values instilled in it. That is in the interests of moving the culture of the Bank along, for moving the culture is not an event; it is a process and it has to start with values. Those values include inclusion, accountability, collaboration, decisiveness and empowerment. We would want that of the new Governor. We have worked very hard to get to this point of having values embedded in the organisation. Those values really work, we believe, for the UK as a whole, and we would expect the new Governor to live those.

Secondly, that new Governor needs to be a superb leader: a leader of people and, indeed, a thought leader. Thirdly, they should have the skills and experience that will afford them global respect, for the UK will be in a very different place by the time the new Governor arrives. We will be outside the European Union. We will be forging a new direction. We will therefore, finally, need in the new Governor a boldness and a vision that is befitting of the role.

If I can add to this, one of the most important things is that I would work very hard to ensure that the shortlist is outstanding, it is diverse and that the very best candidates emerge into the interview process. Chair, the question was asked of you, "How would you feel if the new Bank of England Governor was female?" and you said it would be fantastic if it was a woman. You did not say this, but I guess the same answer would apply that it would be fantastic if we had our first black Governor; it would be fantastic if we had a BAME candidate; and it would be fantastic if we had any manner of inherited or, indeed, acquired diversity aspects. This is the moment for thinking through all those things and making sure that our list is the most distinctive list we could get to.

Q2 **Chair:** Thank you. We are going to talk about diversity in a moment, which I am sure will not be a surprise to you. This Committee will scrutinise the appointment of the Governor. Do you agree that there should be good time before the Governor takes up their appointment for the Committee to complete that scrutiny?

Bradley Fried: Yes, I do. By the way, I agree with that in relation not just to the Governor appointment but, indeed, to all such appointments.

Q3 **Chair:** Do you also think it is important that the new Governor has the full confidence of this Committee?

Bradley Fried: Yes. I cannot speak to a unanimous confidence but, in general, it is very important that the Committee speaks for Parliament, that the Governor has Parliament's confidence and, indeed, that any such appointment has Parliament's confidence going in.

Q4 **Chair:** When Mark Carney was selected, he made clear that he would speak to the Treasury Committee before making other public statements. Do you think that is a wise thing for Dr Carney's successor to agree to as well?

Bradley Fried: If we think about the kinds of statements that have been made by Governor Carney—I will focus on some of those that have been deemed by some to be controversial, indeed, when we evaluate them at Court—we find there is a very interesting aspect to them, because they are all within the parliamentary remit as set for financial and monetary stability. All of them tie back specifically, in word and in deed, indeed, to the parliamentary remit. Many of them tie back to specific questions that have been asked by committees, including very much this Committee. It has been good practice, but perhaps it might have tied his hands.

Q5 **Chair:** I am delighted that you mentioned diversity in the shortlist and I entirely agree with you that diversity means more than gender diversity.

There are many other forms as well. You write in your questionnaire that the Bank has an "obligation to represent all of society". Do you think the Bank achieves that at the moment?

Bradley Fried: Let me be absolutely clear about my answer to that one. I was definitive in my questionnaire. There is no doubt in my mind that we have a long-term obligation to represent the face of the UK. The targets that we have set for 2020, and in the case of BAME leadership 2022, are not the sum of our ambition. They are absolutely not the sum of our ambition. One can take the starting point of the Bank of England, as Governor Carney was quoted as saying, as a white male-dominated institution. If one adds to that the Gadhia report and, indeed, the findings of your own report, and looks at the pyramidal structure of the challenges and barriers there have been for women to progress in finance, including in the Bank, there is no doubt that there is a lot more work to do. The Bank is grappling with this, and the Bank has taken on this challenge. I would go back to your recent report, if I can just play something back and tell you the kind of impact it had.

Chair: The women in finance report?

Bradley Fried: Yes, the women in finance report, at page 9, paragraph 24, dealt with the question of equity. That is after an entire chapter justifying the business case and why it is important to have gender diversity in financial services. I must tell you, I struggled with that, because I do not believe it needs any justification whatsoever, and I felt it almost undermined some of your subsequent conclusions because it is so self-evident. In that paragraph 24, you say that the intentional or, indeed, unintentional exclusion or any grouping in society from a role in finance is absolutely unacceptable.

That is the starting point, but then it ties further into the question—and you asked me this question too—of public trust, independence and whether we can guarantee independence. No, we cannot guarantee the independence of the Bank. It is for Parliament to give independence and it would be for Parliament to take away, but we can work to ensure there is public trust. For there to be public trust, we need to reflect the face of the United Kingdom. We do regard it, candidly, Chair, as simply as that.

Q6 **Chair:** I can ask lots of questions and point to lots of statistics about, as you say, BAME, gender diversity and others. But the question I am going to ask is this: based on your professional experience and what you have just said about the clear importance that you ascribe to this, on confirmation of your appointment, assuming that is where we go, when you walk into the Bank of England with your new hat on, what is the one thing you are going to say we need to start focusing on in order to really shift the dial on this diversity?

Bradley Fried: Chair, you ask me for one thing, and with your permission I am going to offer two. One is very deeply practical and one is very philosophical. If you do not mind, this is the deeply practical piece. You will note that our female in senior leadership number plateaued between 2017-18 and 2018-19. It plateaued. We hit 29%. Our starting point in 2013 when we started measuring this very carefully was 16.9%. We then moved up quite sharply. We plateaued at 30% and went to 29% in our annual report, which has just been produced. The most important thing we can do now is work very carefully with the senior people, female and all other points of diversity, who are facing the greatest impediments in making career progress. We have to figure out what those impediments are, and we are working very hard at it, and have positive action for people, bringing them through the organisation. In terms of Bank of England categories, it is working with category D: folk who are senior high-potential leaders, who have everything going for them but are struggling with certain barriers. That is the first.

Secondly, there was an interesting thing in the *Financial Times* where it was reporting on me and said, "Mr Fried is not exactly from Bank of England's central casting". I did have a good chuckle at that when I read it, and then I thought, upon reflection, "What are they saying?" Maybe they are observing the fact that I do not come from where my predecessors came from. I come from South Africa. I was raised in South Africa at a time of apartheid. It was a deeply corrosive, very dysfunctional, ill society, with the most shocking consequences. I lived through that and we dealt with that, in the most appalling society with the most appalling consequences.

I am Jewish and I have heard the dog whistle of anti-Semitism throughout my entire life. I understand that, too. I have heard overt bigotry. I understand that, too. When they say, "He is not from Bank of England's central casting", that is quite an interesting signal to the rest of the organisation and, indeed, most importantly to people who are not in the organisation to say, "It is okay not to be from central casting and it is okay to be whomever you please, because the Bank of England is a home for you. Public service is a vocational privilege. You will work like crazy, you will do your best and you will bring the best of yourself. Be whoever you are and arrive here, and you will thrive, if that is what you should do."

Chair: Excellent. I would regard that as a huge compliment, actually.

Q7 **Rushanara Ali:** I have one follow-up question from the Chair's. Since 2015, the Bank of England has had a target of 13% representation from BAME backgrounds. It is meant to be reached by 2022. It is still stuck at 5%. I am heartened by what you have said and the signal you send, given your background. How confident are you that they are going to reach that target, or are they going to have to keep pushing it back? Is it just something that ultimately is not at all meaningful?

Bradley Fried: Ms Ali, I have to say this to you. In my questionnaire, you asked me a very provocative question, in that it forces one to think about priorities before taking on a role. I found it extremely provocative. In it, you asked me about my priorities, and I said that the most important priority I had—and I believe I said I had saved the best until last—was the question of diversity and inclusion. Will it be hard to get to the 13%? Yes, it will. Will we give up on it? No, we will not. For the moment, when it comes to figuring out how we hire, what we do, what initiatives we take, very sadly we are at that phase in our existence where we have to be very mechanistic about it. Until that flywheel starts to turn and everything starts to happen the way it should, we have to be very mechanistic.

Take, for example, graduate recruiting. In the previous hearing, Mr Streeting asked Professor Haskel about recruits and how to think about economists. It is obvious, Mr Streeting, if I could say so. Women have not gone in. Girls do not select economics at school; women then do not choose it as a profession and it starts from there. We have had all this and we are living with the consequence today. I will give you two examples. First, when we recruit now in our graduate recruiting, we employ only 50% economists; it used to be, just to be clear, 100% economists from 10 universities in the country. We are now recruiting 50% economists from 40 universities; indeed, it was 35 at the last count, but we target 40 universities. Some 53% of our hires were from quite low socioeconomic categories.

Q8 **Rushanara Ali:** You mentioned gender. Lots of institutions do this, with respect. They say, "Well, the schools are not teaching these courses so therefore the pipeline is not as great". My question was about ethnic diversity. Are you saying that there are not enough people from ethnic minority backgrounds who study maths and economics, so you do not have the pipeline?

Bradley Fried: There are not.

Q9 **Rushanara Ali:** Secondly, are you going into universities that are not just Oxbridge?

Bradley Fried: Absolutely. That is my point.

Q10 **Rushanara Ali:** Your predecessor in giving evidence was from Queen Mary University. We produce a lot of economist graduates; he has taught quite a lot of them, and it is very diverse. Why are we not seeing that?

Bradley Fried: We are seeing it now.

Rushanara Ali: You are still at 5%.

Bradley Fried: Among our latest graduate recruits, we had 25% BAME candidates and 45% women, in our latest statistics. We are seeing that, and indeed we are now figuring out that, if the wrong decisions are made early on in school careers, we are never going to get it right. We have an outreach programme with schools. We have reached out into 1,175 schools, of which 875 are state schools, to deal with exactly the issue I understand you are raising.

Q11 **Rushanara Ali:** Yes, I appreciate that, and I think that you could do more with the Office for Fair Access, because it now has huge amounts of public money in order to address this issue. What I am interested in is the graduate recruitment side and recruitment from other institutions, where if you want to meet this target there needs to be much more radical action. I hope you will be the champion, subject to the appointment, in driving this through. As I say, I am very heartened by what you have said earlier on. We are looking forward to seeing some results, hopefully, in that time.

On to transparency, the Court publishes minutes for its meetings, but it is able to withhold information if it is deemed to be in the public interest. Among that information withheld in 2015 is a statement that there had been a discussion of cyber risks to the UK financial system as a whole, and of a need for co-ordination and action with Government. Why was it deemed in the public interest to redact that statement in 2015?

Bradley Fried: Please do forgive me; I cannot recall the exact meeting. If I could answer you in generalities, Ms Ali, cyber risk and risk to the UK economy around cybercrime are frequent items in Court. Often the matters discussed are extremely sensitive, and that would be the only reason. The reason would be if they fell into certain secrecy categories. We do not hide from the idea that we need to show best practice if we are to ask the same of our regulated entities. We have spent a tremendous amount of time trying to get to best practice.

Q12 **Rushanara Ali:** I have a couple of others. Another redaction relates to a discussion about the Treasury Committee and its decision to publish the FCA internal audit reports. It notes that there was no similar pressure from the TSC to publish the Bank's internal audit reports, because the Committee's concerns about FCA governance did not appear to extend to the Bank. Can you say why?

Bradley Fried: Absolutely. I was not on the FCA board at the time when this happened but, had I been, in the spirit of absolute transparency and honesty, I would have been very concerned about the TSC's request to have internal audit reports published, and I will say why. First, that is an overt expression of very little confidence in an existing board, so it is quite undermining.

The second issue is that we expect, and I will speak from the Bank of England's perspective, there to be a robust, honest and entirely tough debate and challenge between internal audit and management. We want to see the debate. We monitor the debate. We expect to see management action. We want there to be privacy around that, between management, internal audit, the executive and the audit committee, such that people can feel trusted. If that started to rise into the level of public disclosure, we would worry. It is a just a matter of fact that it would become extremely sanitised, and it would lose its robustness and teeth. That was the genesis. I remember that debate very well, actually.

Q13 **Rushanara Ali:** The Court withheld the fact that Sandra Boss, a member of the PRC, had taken up the directorship of a Bermuda-based holding company. The redacted minutes note that the role will require her to recuse herself from 10% of PRC business. Why was that redacted?

Bradley Fried: I will make sure I get you an exact reason. I am going to posit that it was redacted because of the sensitive nature of the appointment to the insurance company. I cannot recall if it was a public company or a private company, but perhaps it was such that the management or company secretary of that company would not be happy.

Q14 **Rushanara Ali:** That company should not be dictating that a publicly funded person on the board has to recuse herself for 10%. That surely cannot be right.

Bradley Fried: You are absolutely right. Can I explain to you what happens? If any independent member of the PRC wishes to take up a role, they can only take up that role with the approval of Court. The role is brought up at the time it is discussed, and Court figures out whether it is appropriate. Had we viewed at that time that it would have been overwhelmingly problematic for Sandra or indeed for the PRC—it was the FCA board at that time—we would have said, "No, you cannot".

Q15 **Rushanara Ali:** Is it not strange that something like that is redacted? Surely it is better for the public just to be aware of it. It just seems odd, to be frank, to not go public on something like that.

Bradley Fried: You raise a very good point and I would like to reflect on it. You are raising a general point and it is a very good one. I would like to think about that. You are right. There may have been specifics then. I will make sure we get you what those were.

Rushanara Ali: It is a public declaration of interest. We have to do it all the time.

Chair: If you could write to us, that would be very helpful.

Bradley Fried: We will, Chair.

Rushanara Ali: Anything on the percentage of redactions, whether it is generally going up, would be really helpful.

Chair: The Bank's approach to redaction of minutes would be helpful. There are two issues: there is the conflict of interest point, and the level of redactions in the Bank minutes. That would be helpful.

Q16 **Catherine McKinnell:** Moving on to Brexit, which generally comes up somewhere in each of our hearings, there are reports circulating of concerns within the Bank about the Brexit deal, its impact on financial services and the ability of the Bank to maintain its regulatory autonomy. Is that something that concerns you?

Bradley Fried: The answer is no. With absolute candour, when I read about these conflicts and issues in the *Financial Times*, it was actually not something I recognised. I am very close to the discussions at Court. Brexit, as you would imagine, is a standing item at Court. We deal with four issues on Brexit. Three are very live and one is somewhat episodic. The three that are live are dealing with the operational issues around authorisations and the nationalisation of the acquis, because we have 10,000 pages of binding technical standards that need to be converted into rulebooks and law. Indeed, tomorrow morning at 10.30 the Financial Policy Committee is publishing its six-monthly report, and you will see the latest assessment of risks on that front.

Latterly, the Governor and President Draghi of the ECB are together on a risk-based committee that has been sanctioned by the Treasury and the European Commission to think about specific risks in the March 2019 point of departure. I would imagine, Ms McKinnell, you are referring to the question of dynamic equivalence, which deals with the whole question of making sure we have equivalent outcomes, rather than contextual rule-based equivalence. As to the tension that was reported between the Treasury and the Bank of England, I would report to you very straightforwardly that I see an extremely collaborative relationship. It was tough for me to recognise.

Q17 **Catherine McKinnell:** I appreciate your candour, in that you do not recognise some of the reports that have been coming out and that you would characterise the relationship as co-operative. Is that the word you used?

Bradley Fried: I would actually say "collaborative". "Co-operative" is rather weak in relation to how much work is being done together.

Q18 **Catherine McKinnell:** Would you say that there are not any material differences of opinion?

Bradley Fried: I would imagine there are probably material differences of opinion each hour of the day and each day of the week, as we go through the nationalisation of the acquis and so on, but they have not manifested themselves, as I can see it, in any divergence of direction.

Q19 **Catherine McKinnell:** Bank officials have not expressed any concerns to you about the Treasury's plan for financial services post-Brexit.

Bradley Fried: No. I can absolutely confirm, no, they have not.

Q20 **Catherine McKinnell:** Do you agree with the Governor and Sam Woods that it would be undesirable for the UK to become a rule-taker after Brexit, because it would make it more difficult for the Bank to meet its objectives?

Bradley Fried: If you do not mind, I will answer this personally rather than as a question of Court, because Court is specifically excluded in mandate from policy decisions. Yes, I do. It would be a better outcome for us if we were not that rule-taker.

Q21 **Catherine McKinnell:** You have already mentioned that one of the remits you are concerned with is the binding technical standards. For the purposes of people watching who are not following the nuances of Brexit and the workings of the Bank of England, it is the meat on the bones of legislation. That is something that the Bank is going to have to take on after the European supervisory authorities relinquish that responsibility in terms of the UK post-Brexit. There seem to be some question marks over how the Bank will be scrutinised and held accountable for these new powers. How do you think accountability should or could be achieved under these new circumstances that we are going to face?

Bradley Fried: Clearly, the Prudential Regulatory Committee and the supervisory oversight functions that are attached to this are going to have to be beefed up as a result, in terms of what they are looking at. If we look at, for example, authorised firms alone, at the Bank of England we are anticipating about 150 to 160 authorisation applications over the course of the next three years. We have received 40 to date. To give you a sense of scale, we have adjudicated on 60 over the last three years. It is a significant upscaling of the amount of work that has to be done.

Q22 **Catherine McKinnell:** In terms of scrutiny of that work, though, do you think it would be appropriate for MPs to potentially scrutinise that work in the same way as MEPs do?

Bradley Fried: Ms McKinnell, I must confess I have not thought that through. I am working on the supposition that we will continue to be accountable to the Treasury Committee in all these matters in the same way we are now.

Q23 **Catherine McKinnell:** Presumably you would agree with the principle that there should be the same democratic oversight that is currently exercised at the European level within the UK.

Bradley Fried: Absolutely. As far as we are concerned, our shareholder is the Treasury, but we are accountable to Parliament through this Committee. We would expect the scrutiny from this Committee to remain and, indeed, this kind of transparency has become a very important feature of the Bank being able to discharge its parliamentary mandate.

Q24 **Catherine McKinnell:** If I may, Chair, the Bank has stated that it would be reasonable for firms to plan on the basis that a transition deal will be agreed and that will take effect on 19 March 2019. Do you think that is still a sensible basis upon which the Bank should be advising firms to plan, particularly in light of recent warnings that have come out from Airbus and BMW? Should the Bank be issuing some updated guidance as to the basis upon which firms should be planning their investments?

Bradley Fried: For the time being, we are working on the idea that the UK and the EU 27 have agreed on a transition plan from March 2019 until the end of 2020. We have worked on that supposition but, yes, we are of course planning for the contingency of a hard Brexit.

Q25 **Catherine McKinnell:** Should all firms also plan on that basis?

Bradley Fried: Sensible firms have to plan for all contingencies. We are working on that as our core guidance, as we are working on the idea of supervisory co-operation. It is an absolute tenet in terms of the way we are thinking about our authorisation regime. In the face of all contingencies, the Government, the Chancellor and the Treasury are working on an SI to deal with a temporary permissions regime. That is a very important aspect, and clearly that is a very important backstop in the event of the transition plan not working.

Q26 **Stephen Hammond:** Good morning and thank you for coming. In your initial responses, you mentioned the word "trust" to the Chair. In your response to us, you said it was crucial that the people whom the Bank serves trust the Bank. Do you think they do at the moment?

Bradley Fried: I would like to answer it very, very practically, if I can. I forget who asked the question to Professor Haskel about the *Inflation Report*, but the *Inflation Report* was traditionally designed for economically very able people. It is very hard to access it and, if you cannot access a communication, it is almost impossible to imagine how trust can exist when you cannot understand what is being said. If you look for example at the current *Inflation Report*, the Bank has a two-pronged approach to a strategic initiative that we call Vision 2020. As you can imagine, it is covering the period from the last strategic plan for 2018, 2019 and 2020. It deals with how we work and how we communicate.

Take, for example, the *Inflation Report*. The last time the *Inflation Report* came out, we layered it and we made it accessible to people so that they could actually understand what was being said: words that laymen can understand, accessible to households, accessible to businesspeople. One did not have to be an equity or bond analyst or an economist to understand what was being said. We had five times the number of hits, five times the number of views we had ever seen. There were over 125,000 views across the economy.

The issue that you raise of trust is absolutely fundamental to us. What are we doing about it? We will listen as much as speak. There will be town hall meetings; indeed, we have had eight, which we worked to set up through charities, to make sure we get to people who need to be heard in order for us to understand the economy. We will listen very carefully; we will speak in plain and accessible language.

We will layer the communications such that the Professor Haskels of this world who are relying on table 5B to figure out their models will have 5B. Clearly, there is a very significant community of people who need 5B. Then there are people who are figuring out, "What is the Bank really saying? What happens if interest rates do go up? What is the likely path of the economy and what are the policy responses? What will happen if this happens? What will happen if that happens?" Most of the people are just like that: 75% of the people in our polling know what the Bank of England is; 60% of them know that the Bank of England has something to do with inflation; 50% of them know it has something to do with operational independence. It is less about the numbers. It is going to be more about the impact when people say, "I wonder what the Bank will say the next time it opines on inflation", open the website and read something they can actually access and understand.

Q27 **Stephen Hammond:** It sounds like a mission statement.

Bradley Fried: It is going to be very practical. Most mission statements that I have read in my time are put in a glass frame and never actually have teeth. This will be extremely practical.

Q28 **Stephen Hammond:** You mentioned the comment about independence. Paraphrasing you, I think you said, "We get our independence from Parliament and Parliament can choose to change that". I take it from that you were drawing a distinction between the independence of the institution and the operational independence of that institution.

Bradley Fried: Indeed, absolutely.

Q29 **Stephen Hammond:** On the operational independence, can I just probe two things that have happened in the last week? In the Mansion House speeches last week, there were new arrangements set out, one of which appears to me to say that the Treasury has much greater oversight of the Bank in terms of how it sets its budget. That could potentially interfere with its operational independence, could it not?

Bradley Fried: I think I have lucked out with your question there, Mr Hammond, because I was in many of the steering committee meetings between the Treasury and the Bank.

Stephen Hammond: We will luck out on your answer, then.

Bradley Fried: I do not know about that, but I can communicate to you both the facts and the sentiment. The sentiment of the matter was as follows. As you can see through our recapitalisation, an additional £1.2 billion worth of capital is being used to recapitalise the Bank. The Treasury is putting that on the Bank's balance sheet and will be taking certain assets over, including the £127 million term funding scheme and so on.

The Treasury, as a result of that, will have a six-monthly look into our capital position and a quarterly look into our budgetary results. It is very important to note that both in the spirit of the discussion at the Treasury, and indeed in the memorandum of understanding, which has just been updated, between the Bank and the Treasury, nothing takes away from the idea that Court has primacy in making sure that it sets the Bank's financial framework, capital framework, risk tolerances, risk framework, and sets and approves the budget.

Q30 **Stephen Hammond:** Throughout those discussions, there was no question of Ministers questioning your independence.

Bradley Fried: There was never such a question. There was only the question of ensuring there was appropriate respect to a shareholder and appropriate respect to the grouping that is responsible for the public purse.

Q31 **Stephen Hammond:** I have lucked out on your answer as well, because I wanted to ask you some questions about the arrangements that were set out last week. Could you just say from the Bank's point of view what you see the principal advantages of those new arrangements could be?

Bradley Fried: Yes. The principal advantage of the recapitalisation arrangement is that we have agreed a new financial framework to equip the Bank with the resources that we need to deliver against our remit. We have a post-crisis remit. That post-crisis remit has been significantly expanded, yet the balance sheet of the Bank and the capital of the Bank had not expanded to do that.

Q32 **Stephen Hammond:** In that post-crisis remit and that expansion of capital, the Governor spoke quite a lot last Thursday—as I listened intently to him—about the opportunities for new finance. That seems to mean greater central bank lending to new types of lenders. Do you not think that is potentially quite a big change for the Bank?

Bradley Fried: I would observe to you that, in figuring out the post-crisis remit, we did not focus as much on new finance as we focused on the financial services landscape. For example, in the event of another crisis, the idea that we could liquefy the system and make sure that banks could continue lending to the real economy—households and businesses—was critically important. Some will be non-banks and some will be banks. But, in terms of the stress tests, it never coloured the decisions that were made, for example, in figuring out how to stress test the capital and what kind of capital was needed over the next five-year period. They were based on the normal kinds of shocks, severe but plausible shocks, that you would have expected in an economy.

Q33 **Stephen Hammond:** So that I am clear, by new finance you mean what we classically describe as non-bank institutions: finance firms of other descriptions. That is the sort of lending the Bank intends to pursue by its increase of capital.

Bradley Fried: No, absolutely not. There is no allocation of where that capital would go. There is no predetermined allocation. It would be to wherever it needs to go to make sure that we fulfil our parliamentary remit. If that has to go to traditional banks—I am wary of treading into policy territory, but I would say that, thinking about the Court remit and the setting of our financial framework and the sterling monetary framework, there are non-bank participants in the sterling monetary framework. If, for whatever reason, it needs to go to a combination of banks, so will it be.

Q34 **Stephen Hammond:** I would like to stray into the area of Solvency II, but I am not going to, because I have told by the Chair I have one more question. I will go back to the issue of parliamentary remit. You will have noted the Shadow Chancellor's remarks last week about setting the Bank potentially a productivity remit alongside its inflation remit. I wondered if you could give your view on what extra tools the Bank would require to fulfil that mandate, and how you would see that affecting currently your operational independence.

Bradley Fried: I did notice that and many of us carefully read the Turner review. Indeed, please forgive me in my ignorance; I am not quite sure if that has become part of Labour policy yet or if that is still in process. It was a very interesting paper and it covered a number of areas, including this question of the role of the public sector in fostering productivity growth generally and changes to the remit and operations of the Bank in particular. Of course, on the operational side, it covered some very practical issues around the role of Birmingham and the Bank in Birmingham, together with the strategic investment board and the national investment bank. There was a lot in there and there was a lot to take in.

I would observe the following to you. I have no doubt that in due course the policy committees will think this through. There is a well-established precedent, as I understand it, of the relevant policy-makers meeting the official Opposition and the major parties about six months before an election to discuss their manifesto commitments, what they have on their minds and the possible planning work that needs to be done for that. This is very fresh and it is some way off. I do not think I could helpfully comment beyond that, other than to acknowledge that we have noted it, we have read it and we will start mulling over it.

Q35 **Stephen Hammond:** You accept you would require extra resources to fulfil that mandate, say if the current Government gave you that mandate.

Bradley Fried: If the current Government gave us that mandate, yes, absolutely, one would assume different resources and extra resources. There would have to be a lot of thinking done as to how that fitted into the current mandate. It is not just a question of an add-on; it is a question of what it means.

Stephen Hammond: It would take you into a policy area where you may not have chosen to stray before.

Q36 **Stewart Hosie:** Mr Fried, part of the Court's role is to ensure the Bank's policy committees operate effectively. How do you believe that their performance and operation could be improved?

Bradley Fried: I am going to give you the general and then the very specific. The general matter is that I believe policy committees, like Court or any other part of the Bank, or indeed any part of any institution, are subject to a process of continuous improvement. There are three policy committees. I will let you know what tool we use for this, because since 2014 we have had at our disposal a very powerful process. I call it a process, but it is a team called the Independent Evaluation Office. It reports directly to the Chair of Court. It has its terms of reference mandated by the Chair of Court. It has an agenda developed only by the non-executives of Court working with the Chair of Court. It reports back to the Chair of Court. Its publications are made freely available.

We have done six reviews since 2014. All of those reviews were ex post reviews of policy, and each of them developed recommendations. Indeed, there have been 39 recommendations across those six reports generated since 2014, of which 38 were accepted by the policy committees. They have actually made a profound change.

Q37 **Stewart Hosie:** It is less a case, then, of Court members observing policy committees, and more of a case of the Independent Evaluation Office doing a predetermined role.

Bradley Fried: There are three pieces. I would say there is a troika of ways of thinking about this. That is the first. The second is that the Chair of Court goes through one-on-ones with every single policy committee member on an annual basis in a very defined way. It is a very formal annual review to figure out what is working, what is not working, where the gaps are and where the possible changes are. People speak very freely in these. They also fill out a survey so that we can track over time how they would score their support, their ability to be heard, the welcome of their challenge, all the things that statute expects from an independent member of a committee. We monitor those things very carefully, too.

There is the scoring, there is the one-to-one surveying and then, since 2016, the Act was reformed to specifically allow for non-executive members of Court to review policy committees. We do this. I, for example, was at the FMI board last week. It is a very important thing to do because, in observing these committees, one can very quickly figure out what the dynamic is in the room. It is not for us to comment on policy; that is to stray well beyond our statutory mandate. It certainly is to ensure that the resources of the institution are deployed appropriately.

Q38 **Stewart Hosie:** You said there had been 39 recommendations made, of which 38 had been accepted. Is that list public and has it been published?

Bradley Fried: It has, yes. If you look at the website of the Bank, the IEO reports have all been published. Indeed, the Independent Evaluation Office has done two additional pieces of work for us. It did a quite seminal piece of work, working with Fed Governor Warsh, on MPC transparency: minutes; how the resources of the institution are brought to bear on the MPC; it changed the MPC meetings from 12 to eight per year; joint MPC-FPC meetings. There was a tremendous amount of work done on that. Indeed, the conflicts of interest review, following the Charlotte Hogg departure of last year, was of great interest to this Committee. I chaired it, but the working group was led by the director of the Independent Evaluation Office, and that too has been published. Every one of these review has been published, and we monitor the implementation of the recommendations at Court.

Q39 **Stewart Hosie:** That is helpful. I have just one final series of questions. The Court minutes note that questions have been raised by MPC members about the way in which Bank research was prioritised and shared. What were those questions? Are there concerns about the Bank's research agenda?

Bradley Fried: I do not know the answer to that, Mr Hosie. I will make sure that I get that to the Committee.

Q40 **Stewart Hosie:** That would be very helpful, particularly the latter part. If there are concerns about what is being researched and who research data is being shared with, it would be useful for this Committee to know.

Bradley Fried: Absolutely. I will work to understand exactly what the sentiment was of the concern, together with the second part of your question.

Stewart Hosie: That is helpful. I appreciate that.

Q41 **Charlie Elphicke:** Good morning, Mr Fried. There are still two minutes of the morning left. You are obviously going to be chairing the Court. Is the Court just a rubber stamp for the Governor and executives, or does it hold them to account?

Bradley Fried: The Court is anything but that. The Court comes with a perception of what perhaps the Court once was. I cannot speak to that, because I was not on the Court that once was. I was on a transitional Court. I can speak about the Court that is. The Court that is has a very straightforward remit, and it is a unified court. We have seven non-executive directors. As you know, two more have just been appointed, Anne Glover and Diana Noble. Those seven non-executive directors, if I think about them, have all either chaired, been chief executives of or run very significant organisations. They have had good experiences and they have had difficult experiences. They have seen very tough times and they have seen good times.

All in all, they are there to hold the entire institution to account. We have five executives. The COO joins us. We have four Deputy Governors, the Governor, the chief operating officer, who joins us by standing invitation, and seven non-executive directors. The mandate of the Court is to manage the affairs of the Bank, and that we delegate much to the Governor and through him to the Deputy Governors. We manage the budget, we set the strategy and we set the risk tolerances. We set the capital framework and the financial framework. As I said to you, I was involved in working with the Treasury on the CRD settlement, on the recapitalisation of the bank settlement.

We are terribly mindful to act as any non-executives would on a well-functioning board, for we are simply a board. We call it Court, because there is tradition involved, but you should think of us very clearly and hold us accountable as a board. There are what we believe are very good practices of a board, and one of the good practices is not to overreach.

We are after all non-executive directors and are there to challenge and hold to account, but we employ executives to manage and run the institution.

Q42 **Charlie Elphicke:** That is great. Can you give a recent example of an intervention by the non-executives that changed the course of direction of the executives?

Bradley Fried: I can give you a number of them.

Q43 **Charlie Elphicke:** Give me some. Give me three examples.

Bradley Fried: I will give you three examples. Take a look at the conflicts of interest review, which came out eight months ago. It changed the entire nature of how policy committees are run, what is disclosed, how things are disclosed, who has to disclose what by when, who sits with whom to hear what, and how the interaction between the Bank and the Treasury works. That is one.

Secondly, there are multiple examples in the audit and risk committee of the approach that we take to IT. When we think about IT, the Bank has a legacy system, and that legacy system, as you can imagine, over the last five years has been added on, added on, added on, added on. All of us have had experience of very difficult legacy systems. We come to a situation where we really understand what it means to have a legacy system be a problem. The Bank is no different, and we are bringing that practical experience. A number of projects have simply changed direction, not because of some nasty interventions, but because of supportive and thoughtful questions that have been asked by non-executives along the way.

The third one is in train just now. It is the idea of how we think and how we make investments, because we are making a number of investments across the board. We are looking at a new real-time gross settlement system that will be implemented by 2024 but is being planned just now. We are looking at not just IT investments, but thinking about how to restructure departments, how resources are allocated, or figuring out how, in the context of our Bank strategy, to work together and communicate better. How we do we instil collaborative IT that works? I do not know how best to put this, but most IT projects, certainly in my own experience, do not really work as they were best designed to work. In all those instances, intervention of non-executive directors would have changed the course of outcomes.

Q44 **Charlie Elphicke:** Great. That is really helpful and very interesting, particularly as we are, as you may know, currently looking into IT project transitions that do not seem to have worked entirely well in one particular case. Under the Bank of England and Financial Services Act 2016, there is this power for non-executives to commission reviews. How many have been commissioned so far?

Bradley Fried: As I mentioned to Mr Hosie, we have commissioned six reviews.

Q45 **Charlie Elphicke:** Which one did you commission?

Bradley Fried: The Chair actually commissions all of them under the Statute. Sir Anthony Habgood would have commissioned each of the six.

Q46 **Charlie Elphicke:** Which one did you lead on being commissioned? Which one did you say, "Can you commission this, Chair?"

Bradley Fried: The conflicts of interest review I chaired. I would say that that was the only one where I took an absolute lead. As for the rest, we evaluate. It is a very important and topical question you ask, Mr Elphicke. We are possessed with this question, because it is a very significant power to have the power of an Independent Evaluation Office. We have a framework, and the way this framework operates is that, when we think about what we commission, we look at it through a lens.

The first lens is: "Does the policy area have the power to impact our balance sheet or reputation risk?" The second lens is the lens of: "Is it new, well understood, and could it do with another set of eyes because it is relatively new?" The third area we look at is: "Does it cut across various areas of the Bank?" For example, take forecasting, which was the first one we looked at. I believe, Mr Elphicke, you raised questions around that earlier on.

Q47 **Charlie Elphicke:** It is a bit chequered, isn't it?

Bradley Fried: It is a bit chequered. You raised the question about chequered forecasting. The question was: given the sensitivity around the forecasting, how do we make it the best we can make it? There were some very controversial recommendations in forecasting. There was the first review that was done, with very controversial recommendations, which are still in the process of being implemented. It is in the interests of moving that area along.

Q48 **Charlie Elphicke:** Finally, I do not know if you have seen that group shot of the MPC, but it is fair to say it is not the best photograph. Professor Tenreyro cuts a somewhat lonely figure in it.

Bradley Fried: I have, and she does indeed.

Q49 **Charlie Elphicke:** Will you make it your business as Chair to challenge the Chancellor and the Treasury, in order to be fully involved in appointments to the Bank?

Bradley Fried: I am going to answer that in the following way, if I can. I am going to answer it in three pieces. Is it okay to have a group shot that looks like that? Do the people in the Bank think it is okay and would we like to perpetuate that? No, we would not. It is not consistent or coherent with what I said to you earlier on. Will I or anyone else intervene in

Treasury decisions and Chancellor-led decisions that are for the Treasury and Chancellor to make under statute? I do not believe we will do that.

But what we can be very helpful in doing and supporting is the building up of candidate pipelines such that, by the time we get to these processes, we have spent multiple months—indeed, years—figuring out a pipeline of the strongest and most diverse candidates. It would not be unlike figuring out the pipeline of Governor candidates. You may have noticed we made six appointments in the last four weeks. We have made two appointments to non-executive director members of Court. Two women have been appointed. We have made two appointments to the Prudential Regulation Committee. Two women were appointed last week. That completely changes the group shot.

We have a majority on Court of our non-executive directors who are women; we have four women and three men. It is a very important moment. It is a very telling, important signal value to the entire institution of what can be done. Mr Elphicke, I know we are picking out the MPC as the group on whom we should pick just now, but I would ask you please to look at it in context. If you ask me if we will commit the institution to working on the pipelines, the answer is very unequivocally yes.

Q50 **Charlie Elphicke:** Can I just very briefly add to that? It was our view that, when Professor Tenreyro came before our Committee, she was—certainly in my view—absolutely outstanding. When people say, "Where is the pipeline? We need a pipeline", we ought to embrace the fact that the women are here today and start doing more to appoint them. Would you agree?

Bradley Fried: Yes, I would agree. There are absolutely outstanding women candidates for every single role. There are absolutely outstanding candidates. It was obviously the view of the, as I understand it, quite diverse selection panel of the Treasury in relation to the most recent appointment that, of those outstanding candidates, Professor Haskel was the most outstanding and the standout candidate. We do not have to look hard for outstanding candidates, Mr Elphicke. They exist, and the economy is full of outstanding women candidates and outstanding black candidates at every level.

Q51 **Chair:** The trick is surely making sure that the four who did not get appointed this time put their names in next time there is a similar appointment or something for which they are appropriate.

Bradley Fried: You are absolutely right, Chair.

Q52 **Mr Clarke:** Mr Fried, thank you very much for coming in to give evidence today. I want to turn to a response that you gave to the TSC questionnaire that we sent you. You said in that that it is important that the institution—that is to say the Bank—"allows itself to boldly redefine its purpose in a significantly less stifling way than it has in the past". What is wrong with the Bank's culture at the moment that made you make that comment? It is quite a strong comment.

Bradley Fried: I would say the answer is culture. The development of a culture, especially in financial services, where there are so many embedded truths, is a process rather than an event. I would say to you the following. I would like you, if you can, to think about the Bank of England's culture in a way that simply starts with the values. The answer is that there is nothing wrong with where our culture is headed because, if we can do what we say we will do, we are heading into a very serious territory with a distinctive culture that is appealing internally and, significantly importantly, appealing externally.

We start with the values—the idea of being diverse, open, inclusive, accountable and so on—and we then move to what is important to us. Our starting point says we need diverse and talented people. That is our starting point for all our strategic initiatives: we need diverse and talented people. We move across to the other pillars. We need outstanding analytics, superb execution and so on. Then we look at how we communicate and how we work. Every one of those actions is in support of a culture that can be utterly distinctive in society and build a superb, transparent, open institution that has impact beyond where it ever thought it could before.

Q53 **Mr Clarke:** One of the most important aspects of the culture of any public institution is that it provides value for money to the taxpayer. On that note, I was particularly mindful of your quote that you are non-executives on a well-functioning board whose role is to challenge and hold executives to account. In the last two and a half years, two members of the FPC, Mr Kohn and Mr Kashyap, have incurred £390,000 in travel expenses, which is a simply staggering sum. Do you think that is a sensible use of the Bank's resources?

Bradley Fried: I would argue the following, in the context of the skills that we needed in those policy committees at that time. It is not for me to evaluate the performance of Mr Kohn and Mr Kashyap, but I would observe to you that, having seen these committees in action and seen the contributions they have made, as high as the expenses have been, so staggering has been their contribution. I would just observe that there has been a tremendous contribution made. I cannot quite work out a formulaic assessment of value for money against their participation versus the travel expenses, but I hear exactly what you say.

Q54 **Mr Clarke:** I can certainly say that my constituents would be gobsmacked to hear that, for example, one return flight from Chicago to London for a meeting in February this year for Mr Kashyap cost £11,084.89. Given the diaries involved, I would envisage these meetings must be scheduled months in advance. I cannot understand how that figure has been arrived at.

Bradley Fried: Mr Clarke, you make a very important point. With your permission, Chair, I would like to take that back and dwell on it.

Q55 **Mr Clarke:** Thank you. Could you also as part of that clarify whether the Bank allows FPC members to fly first class?

Bradley Fried: I think our people fly business class. If it is anything different to that answer, I will let you know.

Q56 **Mr Clarke:** Can we extend that inquiry to encompass taxi fares? On another occasion, Mr Kohn's flight from Washington cost £8,000, and there was then a further £469 in taxi fares for one meeting. Again, this is just unconscionable. I think of the culture we had in this place and which was so rightly criticised in the 2009 to 2010 period. There are disturbing echoes of that here at the Bank for me. Moving on, the Bank's annual summer party in 2016 cost £100,000. That is one hell of a party. This is what I want to understand. Is that public money and, if not, whose money is it?

Bradley Fried: The answer to the question on what I am going to do about it is clearly take it back, reflect on it and figure out with our financial manager what kind of framework is appropriate.

Q57 **Mr Clarke:** You wrote in your questionnaire that "central banks cannot be complacent about keeping the trust and credibility of the public".

Bradley Fried: You are absolutely right, and part of that is value for money.

Q58 **Mr Clarke:** I think we would all agree as a Committee here today that there is something awry here with the culture that allows this kind of spending to be considered normative. One final point I would like you to take away as part of this inquiry is about the Bank's sports facility at Roehampton. If you are a member of the general public, it is £1,464 per year for membership. Bank employees pay £50 a year. I appreciate that, as part of any package for talented people you want to recruit and retain, you may want to make allowances, but again that is an extraordinarily good deal, and it would suggest there is an extraordinary subsidy being offered there. How does that fit with promoting the Bank's mandate of promoting the good of the people of the United Kingdom by promoting monetary and financial stability?

Bradley Fried: I would simply say to you that Roehampton is part of what we will look at. We will be looking at Roehampton.

Mr Clarke: Thank you. We would appreciate a considered response to these details.

Bradley Fried: Noted. Thank you, Mr Clarke.

Mr Clarke: I am grateful. Thank you.

Chair: Last but by no means least, I am going to bring in Wes.

Q59 **Wes Streeting:** Thanks. I am tempted to ask when the summer party is and whether we can come. It is quite extraordinary. That is not really what I want to ask about. Instead, I want to turn to the issue of RTGS, which we have spoken to the Bank about for some time. It has been described as one of the largest projects the Bank has undertaken in its history, and it will have sizable impacts on the customers it serves and the financial sector. Do you recognise that characterisation?

Bradley Fried: Yes, I do. It is. The current RTGS infrastructure is over 20 years old. It has a very strong operational record. You will recall I, in fact, appeared before you in 2015. I think you were on the Committee.

Wes Streeting: No. That was just before I joined.

Bradley Fried: I appeared before this Committee because there had been a difficulty with RTGS. We commissioned a study by Deloitte and we have not had any issues subsequently, but it is over 20 years old and it needs to be modernised. It has to be developed very substantially to meet current needs. In the way we look at it, we see six quite important benefits of modernising RTGS just now. I would like, if I can, to articulate them, because it is important that the Committee understands exactly why we are doing this.

First, we need the highest international standards of resilience. We have £600 billion on average per day going through the real-time gross settlements system. The cash used to clear settled securities goes through the system and payroll goes through the system. The idea of it not being at the highest international standards, with code having moved on so substantially in that period of time, is not okay.

Secondly, your Committee has been pushing quite hard on the question of distributed ledger technology, fintech and so on. It is time to think about how we allow access to non-bank payment service providers to our system. Traditionally, there had been the traditional participants in a real-time gross settlements system, but we need to think beyond that.

Thirdly, we need to think through the increased interoperability of RTGS, whereby we can route payments not just in the same way, in a linear way, as we have always routed them before, but there may be efficiencies for participants to route them in different ways. Fourthly, RTGS has hours. We think under this scenario we can move towards something that is more akin to a 24/7 kind of operation.

The fifth is around risk management. You will have noticed that the Bank took over CHAPS Co. The reason for doing it was not to become the operator and run the infrastructure just for the sake of it. The reason to do it was, indeed, to make sure we had sight of end-to-end risk management. The risk management function over here is absolutely critical.

Finally, I believe, Chair, the Bank has made a submission to your Committee in your review of cryptocurrencies and distributed ledger technology. You will notice in that review that we make a very careful differentiation between crypto assets and distributed ledger technology, because distributed ledger technology has the power to transform costs and to transform systems. It is a bedrock of financial innovation just now. We should not confuse the crypto assets with the peer-to-peer distributed ledger technology that could help in a payments system, for example. While this is not going to be the backbone of our payments system, it certainly will allow access to distributed ledger technology. There are those six aspects.

Just to make a few other points, because you got to the question of cost, as you can imagine it is very sensitive, given the fact that we are engaging with vendors right now. With your permission, I would prefer not to go into chapter and verse around cost. I would observe to you that we are running an extremely open and collaborative process with third parties, because it is their system, they are the operators and they will be paying for it. The private sector will be paying for this, and therefore, as we work with them to figure it out, we are iterating exactly what the right outcome should be.

We are in design stage. By November, the RTGS team is coming back to Court with an update on its work to date. We have had quite a number of reviews involved. We have external people involved in this and internal people. We will soon start to go out to tender on the core pieces of technology, and there will be a phased input up until such time as 2024. By the end of 2024, we think we will be fully implemented, and that is currently our intention. The intensity of work being done at every single level is quite extreme now, because we have to build something that allows for innovation. The pace of that is accelerating quite dramatically.

Q60 **Wes Streeting:** Thank you very much for that very clear overview. You have anticipated some of my further questions. I just want to probe a little around the risk and the risk management of this process. Were this project to go wrong, what would be the potential risk to the Bank and its customers? What does the worst-case scenario look like in that event? What role is the Court playing in mitigating those risks?

Bradley Fried: The Court will play a strong role in mitigating those risks, because the audit and risk committee every single step of the way, as a subcommittee of Court, will have sight into how this project is evolving. Because of the dramatic nature of the project and its sheer size, it will simultaneously come to Court. It will come to Court frequently. I would say this: there will be no switching off of any existing system. It is 2018, but I am forward-winding to 2024. If you work with me to imagine this for a moment, nothing will be switched off until such time as we have tested, tested, tested, and know that that which is switched off can be switched off safely.

Q61 **Wes Streeting:** In terms of the expertise on the Court, this is a highly specialised and not necessarily widely understood area. Do you have the right skillset and expertise on the Court to evaluate, analyse, critique and question the range of variables, factors and risks involved in the project?

Bradley Fried: Yes. I am going to namecheck one member of Court. We have seven non-executive directors of Court. I will namecheck one because it is quite an important namecheck on this occasion. He has just been reappointed for another four-year term, and why we are so excited about that is because it coincides with some of the most important decisions that should be taken around RTGS. That is a fellow called Don Robert. He has been chief executive officer of Experian, which is basically a major systems business, and he is currently chairman of Experian. It is not just around him, but it is what he brings in terms of experience, network, thoughts and challenge. Challenge is endless.

Wes Streeting: That was all very clear. Thank you very much.

Chair: Mr Fried, thank you very much indeed for your evidence this morning. You have been very thorough in everything that you have said. There are a few bits and pieces you are going to write to us about further with clarifications. We will obviously make our recommendations, but we are very grateful to you for your time, and for sitting through the first rather warm session, then sitting there and being grilled for the second session as well. Thank you.

Bradley Fried: Can I thank you all, too?

Chair: Thank you very much.